

Unit Fund Token - The Internet's Own VC Firm

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Abstract

The advent of Initial Coin Offerings (ICOs) has been a boon for investors around the world, allowing individual investors from anywhere in the world to contribute to the growing crypto-economy without the regulatory involvement of any nation state or any third party. This direct result of this sudden drop in regulation is the rise of a large number of unscrupulous initiatives that lure investors with untold profits, lacking any substantial product or initiative to support such claims. This has resulted in a gold rush of “scams”, branding ICOs as a new haven for fraudsters. In this paper, we propose a variation of the well-established concept of Venture Capital (VC) funding that does not rely on the investment of a few Limited Partners (LPs) but is instead comprised of numerous individual investors. We explore how such a fund may address the challenge of trust in the online ICO marketplace, while also allowing the majority of online citizens to participate. We also include a detailed description of how the Unit Fund, the first such fund, operates as well as an explanation of the Unit Fund Token (UFT). We conclude with a an explanation of the launch plan and the roadmap post-launch.

1 Value Proposition

We propose the UFT as a token of exchange in a secure, decentralized investment funding system with the following properties:

- No investment minimums, allowing investors with disposable incomes to participate in the fund without any minimum income or geographic restrictions.
- A managed fund that reviews and vets investment opportunities using established Due Diligence (DD) practices that are prevalent in the field of VC. This is in contrast to traditional ICOs that are currently unregulated, posing a greater fraud risk.
- A potential Internal Rate of Return (IRR) that greatly exceeds that of current interest rates across the global economy.

2 Introduction

“There is no question that many of the ICO’s receiving investments now will not succeed. This is not to suggest that they are scams necessarily, but the fact remains that many new ventures in any sector fail, and this will be the case with blockchains as well.” — John Koetsier, Inc.com

The recent rise in ICOs for various categories of companies has facilitated in the creation of vast economic opportunities, measured in the billions. The market capitalization of the Bitcoin and Ethereum blockchains has already surpassed that of [\$#], and will likely continue to rise as the number of applications built upon these networks continue to grow. One feature that enabled this rapid growth is the ICO, a way for small teams to raise funding in order to execute on their ideas quickly and with minimal oversight. Indeed, many companies that have resorted to raising funding through ICOs cite this quality of ICOs as a key driver for their resorting to use them.

However, there have also been numerous cases of companies that have leveraged this lack of regulatory oversight for unscrupulous ends. Examples like [...], where many millions of dollars were raised only to be succeeded by si-

lence from the project owners have left an indelible scar on all ICOs. Many online portals have published guidelines and best practices that investors should follow in order to protect themselves, or at the very least limit the potential losses that they incur. However, it's unlikely that this will ever reach more than a small percentage of the overall population of investors in the cryptocurrency space.

It's apparent that some degree of regulation for ICOs is necessary, but in the online world of decentralized technology it would prove difficult to reach a consensus on a single, central body that would be responsible for regulating such listings. This results in a harrowing spiral towards the bottom. The success of fraudulent ICOs would draw more fraudsters to the ICO arena, launching ever-more ICOs that would result in more duped investors. The end result could be a phenomena akin to the "Nigerian prince scam" emails, where only those that have never heard of ICOs would risk investing in one at all. The majority, having succumbed to massive losses would prefer to stand on the sidelines and exercise caution. This would bring an unfortunate result to an economic vehicle that has the power to bring into existence initiatives that otherwise may not have been created.

3 Unit Fund

VCs have already solved the above problem. With generally accepted best practices already in place for performing due diligence, VCs are able to decide whether a particular team's idea has merit and warrants investment or it does not. The industry standard returns of 20%+ are favorable, but currently only available to a small group of LPs, those high net-worth individuals and institutions that support the VCs fund.

The Unit Fund combines the advantages of the traditional VC approach with the advantages of the decentralized, distributed nature of the blockchain.

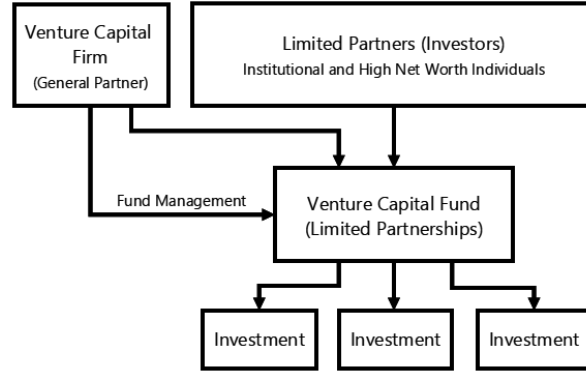


Figure 1: High level operating model of Traditional VC firms

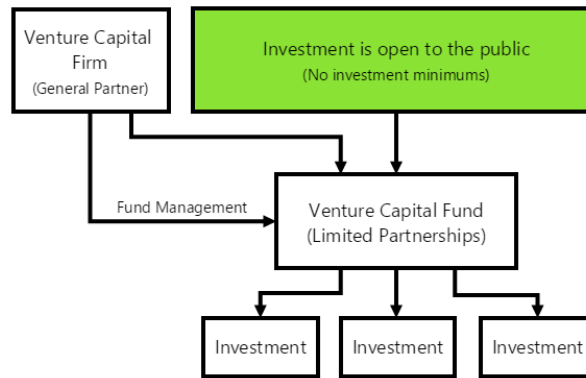


Figure 2: High level operating model behind the Unit Fund

3.1 Token Technology

The Unit Fund Token (UFT), a token based on Ethereum, is an important element of a new marketplace. Ethereum is an open source, blockchain-based, distributed computing platform oriented towards smart contracts. Effectively, Ethereum is a distributed virtual machine that allows end users to construct smart contracts for transactions. Smart contracts are stateful applications stored in the Ethereum blockchain.

These contracts are cryptographically secure and can verify or enforce per-

formance of the contract. Token contracts are a standard feature of the Ethereum ecosystem. Ethereum has been used for mobile payment systems, distributed exchanges, tokens pegged to commodities and at currencies, market clearing mechanisms, micropayment systems for distributed computing resources, commodities and securities exchanges, crowdfunding, and legal document verification. Large firms have invested in and deployed Ethereum, with JP Morgan, Deloitte, IBM, Santander Bank, Microsoft, the Luxembourg Stock Exchange, and the Royal Bank of Scotland being key early adopters.

3.2 The Unit Fund Token

The UFTs are fungible, tradable goods that collectively represent the sum of funds that the company will be raising as part of the closed-ended Unit Index Fund.

3.3 Roadmap

The roadmap for the Unit Fund includes distinct stages:

- Pre-ICO: During this stage, most of the time was spent recruiting the management team for the fund as well as the advisors that would serve on the Board of Advisors. This includes some prominent figures in the Venture Capital and Angel Investing space, including top-tier investment firms like Y Combinator, 500 Startups and TechStars.
- ICO launch: The ICO launch date is currently planned for the 25th of July at 9AM UTC (Block #...), and will proceed until the sooner of either (1) all of the outstanding tokens are purchased or (2) until 30 days have lapsed, on the 16th of August at 9AM UTC (Block #...).
- Dealflow & Investment: Following the completion of the ICO, the closed-end fund will proceed to engage high-potential technology startups from across the globe seeking investment opportunities. This will involve a combination of outreach initiatives (wherein the fund will reach out to investment leads identified through market research conducted by the fund management team) or through inbound channels

(leads sourced through the various channels available for applications – through the fund website, marketing channels, partnerships with accelerators and other means). Once an investment is finalized, the term sheet is added to the portfolio and shared on the fund website and in communications with the fund constituents.

- Return on Investment: Investments that successfully exit (either through an Initial Public Offering, or via an acquisition) will trigger conversion of the equity into fiat currency. Upon liquidation, the yield is consolidated with other liquidation events that have taken place during the same quarter, and at the end of the fiscal quarter the yield will be disbursed to the investors in the form of dividends.

4 Business Landscape

4.1 Competition

Traditional VC firms like Andreessen Horowitz, DFJ and others. Traditional VC firms typically raise their funds from a few Limited Partners (comprising both institutional and high net worth individuals). Often, such firms charge a management fee (fixed amount, based on the Assets Under Management) and a “Carry” (representing a percentage of the net profit that the firm realizes). There is currently no way for regular individuals to contribute to a VC fund.

4.2 UFT Advantage Matrix

Present ecosystem	UFT Token system
Minimum investment of \$10M+	No minimum investment
Funded with fiat currency	Funded by cryptocurrencies
Potential yield of 20% per year	Potential yield of 20% per year
Faces geographical restrictions	Available to investors internationally

Table 1: Comparison between the Traditional ecosystem and the UFT Token System

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6 Acknowledgements

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